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July 29, 2002

Via Electronic Filing
Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th St., SW Room TWB-204
Washington, DC 20554

Re: Notice of Ex parte Contact
Elimination of Conditions Imposed by the FCC on the AT&T-
ALASCOM Relationship, CC Docket No. 00-46

Dear Ms. Dortch:

On Friday, July 26, 2002 Kristi Catlin of AT&T and Michael Felix of AT&T-ALASCOM met with Commissioner Michael Copps, Jordan Goldstein, Legal Advisor to Commissioner Copps, Commissioner Kevin Martin and Dan Gonzales, Legal Advisor to Commissioner Martin, and discussed issues related to the aforementioned docket. At the meeting the attached materials were reviewed.

The positions expressed were consistent with those contained in previous filings in the referenced docket. One electronic copy of this Notice is being submitted in accordance with the Commission's rules.

Sincerely,

A handwritten signature in cursive script that reads "P. K. Alberg".

Penelope K. Alberg

Cc: Commissioner Copps

Commissioner Martin
Jordan Goldstein
Dan Gonzales

AT&T Alascom

July 26, 2002

- Serving Alaska, Yesterday and Today
- Regulatory Initiatives
- The Broadband Challenge

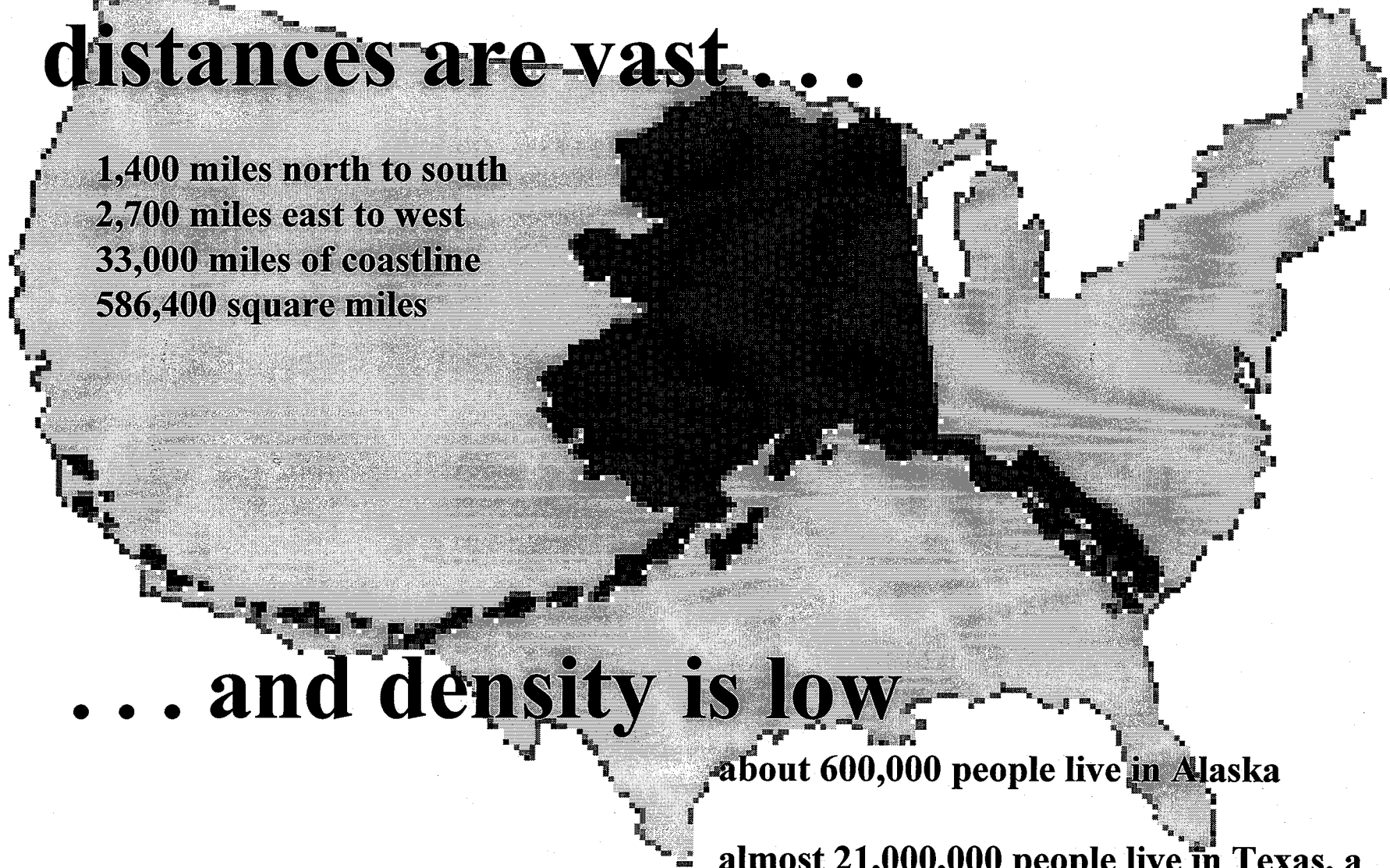
In Alaska, distances are vast . . .

**1,400 miles north to south
2,700 miles east to west
33,000 miles of coastline
586,400 square miles**

. . . and density is low

about 600,000 people live in Alaska

**almost 21,000,000 people live in Texas, a
state half as large as Alaska**



AT&T Alascom Connects Alaska

- Throughout this vast territory, AT&T Alascom connects every local service area to the public switched network.
- As the LD carrier-of-last-resort, AT&T Alascom serves where no one else chooses to serve.
- AT&T Alascom provides the only connectivity to about 100 locations representing 10% of all access lines in Alaska.
- AT&T faces competition for the other 90% of Alaska access lines, and has lost more than 50% of the overall market.

AT&T Remains Committed To Alaska

- We launched the AURORA III satellite in 4Q00 and have upgraded over half of our 200 earth stations with DAMA equipment that permits “single-hop” transmission between villages.
- We have asked the RCA to consider in-state subsidies to underwrite losses in serving the Bush.
- We have proposed sharing the COLR obligation with our facilities-based LD competitor, GCI.
- We filed a petition at the FCC in March of 2000 to allow for relief from the conditions imposed upon Alascom and AT&T (the “214 Petition”). This relief would allow us to lower prices and bring national plans to Alaska.
- We have also pursued other regulatory reforms to lower costs and better reflect current market conditions.

The History - AT&T Alascom

- Between 1972 and 1995, AT&T and Alascom jointly provided switched telecom services between Alaska and the Lower-48 States
- Under the 1980 Joint Service Arrangement, AT&T received all revenues and bore all costs, including a return on Alascom's investments
- Revenues always fell substantially below the costs AT&T was required to bear
- The “viable and fair” resolution was AT&T's \$290 million acquisition of Alascom in 1995

Today's Competitors Include:

- **Alaska Communication Systems (ACS):** ILEC with an IXC affiliate, with annual revenues of \$332M and serving 70% of access lines. ACS also operates the State's largest cellular provider, the largest ISP, and the 3rd largest LD carrier.
- **General Communications Inc. (GCI):** LD carrier and CLEC with annual revenues of \$357M from long distance (68%), cable TV (21%), local (7%), and Internet access (3%). GCI owns 75% of Alaska's cable-TV properties.
- **AT&T Alascom:** LD carrier and CLEC with annual regulated revenues of \$241M from long distance (>99%) and local (<1%). AT&T Alascom, with 48% market share, is treated as the Incumbent and "Dominant" Carrier, and Carrier of Last Resort.

AT&T Alascom's Regulatory Initiatives

- **In-State Market Structure Docket:** Sought elimination of in-state “Dominant Carrier” regulation of AT&T Alascom, and implementation of the Alascom-proposed Bush Subsidy.
- **In-State Access Reform:** Seeking reform of in-state access charges.
- **FCC Section 214 Petition:** Seeking elimination of interstate conditions placed upon AT&T and Alascom by the FCC in connection with AT&T's 1995 purchase of Alascom.

In-State Market Structure Docket

- In April of 2002, the RCA denied AT&T Alascom's request for relief from its Dominant Carrier status. As a result, we are left with the costs of filing Form M (legal entity financial statements), keeping separate reporting and tracking mechanisms, and serving as Carrier Of Last Resort.
- We believe that relief was appropriate because AT&T Alascom has lost market power in provision of services, and now serves about 48% of the long distance market and earns less than 25% of the total telecom revenues in the state.
- What we are **not** asking for is to quit serving Alaska.
- What we are asking for is market structure relief that allows us to compete.

Intrastate Access Reform

- At the request of AT&T Alascom and GCI, the RCA has opened an inquiry into the level of in-state access charges.
- AT&T Alascom proposed the elimination of the NTS CCL element of intrastate access charges to be replaced by a SLC and/or USF funding, an investigation of TS elements of intrastate access charges, identification of implicit subsidies (either removing them or making them explicit), and a move toward adoption of forward-looking economic costing as the basis for calculating access charges.
- The RCA has formally indicated a willingness to examine the institution of an in-state Subscriber Line Charge (“SLC”) as a means of reducing access charges.
- We expect a ruling before the end of the year.

Section 214 Petition At The FCC

- When AT&T acquired Alascom, the FCC:
 - required Alascom and AT&T to operate as separate legal entities;
 - required Alascom (and not AT&T) to offer Alaska end users interstate service under an interstate tariff that is completely separate from AT&T's, and;
 - required Alascom to offer interstate wholesale service to other carriers under a separate tariff known as the Common Carrier Services ("CCS") tariff.
- The FCC did so to constrain the perceived market power that AT&T and AT&T Alascom could exercise in Alaska, and to insure that other carriers have non-discriminatory wholesale service to all locations in Alaska.

Section 214 Petition (cont'd)

- AT&T's petition has been pending since March 20, 2000.
- Relief will permit AT&T to compete in the provision of wholesale services between Alaska to the Lower-48 states on the basis of AT&T's integrated national costs rather than Alascom's Alaska-specific embedded costs.
- Relief will foster the introduction of new services in Alaska. Today, AT&T Alascom incurs \$600K to \$1M dollars in extra billing, development, and journalization costs for each service introduced in Alaska, because each must be introduced on a basis separate from the rest of the Nation.
- Relief will allow for additional cost savings resulting in reduced losses. (In addition to the costs mentioned above, AT&T Alascom incurs significant unnecessary costs from unnecessary regulatory filing, tracking, and reporting requirements.)

Section 214 Petition (cont'd)

- GCI opposes the Petition because it does not want AT&T to lower prices in the wholesale market on the basis of AT&T's national costs rather than Alascom's Alaska-specific embedded costs, or to provide integrated wholesale offers to customers. **The artificial price umbrella created by the CCS tariff does not serve the public interest.**
- If the FCC grants AT&T's Petition, AT&T (rather than Alascom) will offer its services directly to end users.
- AT&T will continue to make its CCS tariff available for a two-year transition period at rates no higher than exist today for service to all Bush communities where it maintains a facilities monopoly.
- At the same time AT&T would maintain (and over time expand) the services by which interested carriers could access Bush and non-Bush LECs without reliance on CCS.

Section 214 Petition (cont'd)

- The current regulatory structure forces AT&T alone to subsidize service to the Bush. However, AT&T's view is that service throughout the state of Alaska could be profitable given a different structure and incentives.
- The current structure only impedes the ability of AT&T, the carrier-of-last-resort, to compete, and it discourages investment. AT&T believes that what is needed is a broad-based, carrier-neutral subsidy mechanism.
- The intent of a subsidy would be to incent appropriate investment in the Bush.

The Broadband Challenge: Rural Alaska Internet Initiative

- Today, Internet service to the Bush generally entails an end user transport cost (10¢/minute) and speeds less than 56kbps.
- Not surprisingly, bringing broadband to the Bush raises unique technical and economic hurdles.
- AT&T Alascom has deployed a Frame Relay network in Alaska that provides broadband services to regional hubs.
- Since August of 2000, AT&T Alascom has been working with the private and public sectors in an effort to find a way to bring advanced services to the Bush.
- To date, a feasible solution has been elusive, but the effort continues.